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TREASURY FOR ZARATE, MILLS, DEMOPULOS
CPA FOR WETHINGTON, VARDAMAN

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SUBJECT: U/S LARSON MEETINGS IN AMMAN, FEBRUARY 24

REF: AMMAN 1452

Classified By: AMBASSADOR EDWARD W. GNEHM. REASONS 1.5 (B) AND (D).

1. (C) Summary. Under Secretary Larson used February 24 meetings with senior Jordanian officials to reinforce their commitment to fiscal discipline and growth-oriented economic policies, urge a quick return to Iraq of the full amount of Iraqi assets frozen in Jordan, and seek input and feedback on USG ideas for a "Greater Middle East" initiative. The Jordanians were responsive all these areas, although they expressed concern that a new U.S. or G-8 initiative for the region take into account what they described as the region's overriding political priorities, notably the Israeli-Palestinian conflict. End Summary.

Jordanian Fiscal and Economic Reforms

2. (C) In separate sessions with Prime Minister Faisal al-Fayez, Deputy PM Mohammad al-Halaiqa, and Finance Minister Abu Hammour (accompanied by the Ambassador and ECON/C), Larson congratulated the Jordanians on the Parliament's recent approval of the government's 2004 budget (REF). Larson called the budget -- which meets IMF deficit targets and contains difficult new tax and price measures needed to wean the Jordanian economy off its reliance on external oil support -- a courageous step that was vital for maintaining Jordan's standard as a leader of reform in the region. The new government's efforts to explain the budget's requirements to the public in a transparent way were particularly admirable. Larson's interlocutors appreciated these expressions of support, and appreciated U.S. financial and trade assistance that had helped Jordan successfully weather the war in Iraq. The Jordanians also reiterated their commitment to a vigorous private sector and a small, efficient government as the only bases for long-term growth and job creation.

3. (C) Abu Hammour, however, stressed that meeting the budget's goals for 2004 would be a challenge given the extra costs of procuring oil at market prices and an expected decline in external aid grants. He and Fayez took advantage of their meeting with Larson to request additional assistance in FY05. Abu Hammour also briefed Larson on the government's efforts to secure Parliamentary approval of military pension reforms that are critical to longer term fiscal sustainability. Larson praised the Minister's and the government's strong leadership on this issue. In all three meetings, the Jordanian officials said that they intended to integrate Social and Economic Transformation Program (SETP) projects into the general budget beginning in 2005. (In view of this, Abu Hammour asked that any additional U.S. grants not be earmarked for the SETP.) Larson welcomed this decision, saying the United States was proud to support the SETP's goals and believed that the steps the government was taking to ensure transparency and accountability and transparency were very important.

Frozen Iraqi Assets in Jordan

4. (C) Larson told Abu Hammour that it was important to put this issue in the past in such a way that it did not develop into a source of friction between Jordan and the new government of Iraq. The U.S. appreciated the transfer to the DFI of \$235 million so far, and hoped the remainder would be moved quickly. The Minister said he had tried to involve the Iraqis in reviewing the Jordanian private claims against the assets, but that a team had not yet come from Baghdad. The local Rafidain Bank branch was not able to make authoritative statements about individual claims. Larson pointed out that the Jordanians had not yet provided the Iraqis with the information they had requested on Iraqi ministry counterparties for the claims.

5. (C) Abu Hammour said he was under a lot of domestic pressure and could only hold off on paying additional claims for "two weeks." Larson said he would work with CPA and the

Iraqis to get a team to Amman quickly, but that the Jordanians also needed to provide the additional information the Iraqis had asked for. Abu Hammour agreed that both sides needed to move fast.

Bilateral Trade Issues

16. (C) With Deputy Prime Minister Halaiga, who is also Minister of Industry and Trade, Larson noted the Jordanian request for acceleration of FTA tariff reductions for certain textile products. The USG was supportive, but recommended that Jordan consult with the Israeli government given possible perceptions of an impact on the economics of the QIZ initiative. Halaiga said he would look for an early opportunity to do so. If he was not able to meet his Israeli counterpart Ehud Olmert in the near future, he would call him on the telephone. Halaiga also asked for U.S. support for Jordan's and Israel's initiative to obtain an arrangement from the EU similar to the QIZ initiative. This would help the QIZ's remain competitive after 2005, when the global textile quota system ends. As an example, Halaiga said an Israeli firm was ready to create 10,000 new QIZ jobs in Jordan if it were to obtain such access to the EU market.

17. (C) Larson also raised concern about the Jordan pre-inspection program for imports, Daman. He said this appeared to be a costly, haphazard, superficial system that he was not aware of anywhere else in the world. It was certainly not appropriate in a free trade relationship. Halaiga said he had promised Ambassador Gnehm a paper on the subject on which future discussions could be based. He said the list of goods requiring pre-inspection would not be expanded beyond the current 40 goods, and noted that the cost of inspections had been reduced.

G-8 Regional Initiative

18. (C) Larson described for all his interlocutors the current state of U.S. thinking about a regional initiative that could be announced at the G-8 summit this summer. He said the U.S. and its partners were currently in the mode of seeking feedback from the region. The U.S. goal is to support the region's initiatives for change and development, not to impose change from outside, Larson said. He also noted how Jordan was a "pathfinder" for the region in demonstrating that positive change could occur in the Middle East.

19. (C) The Jordanians welcomed the attention to the region, but raised several concerns. The Prime Minister said he thought that the Arab countries of the Middle East had unique concerns and that an initiative should be focused on them as opposed to a "Greater Middle East" that included countries like Pakistan. He was also very concerned that reforms be perceived as homegrown, not imposed from outside, and that reforms be adapted to the traditions and cultures of the region. Furthermore, the Prime Minister continued, the United States needed to recognize that reforms, particularly political reforms, could not be made at the expense of stability and security within the region. Given the region's multiple political problems, security had to be the first priority. A G-8 statement on the region should, he said, acknowledge the difficulties the region is experiencing.

110. (C) DPM Halaiga was more direct in stating that an initiative should not be perceived as ignoring or putting to the side the Israeli-Palestinian issue. This issue, he said, was at the core of every major problem the region faced; it desperately needed resolution. He hoped that a G-8 initiative in support of regional reforms would also address the Israeli-Palestinian issue. Alternatively, a push on the Israeli-Palestinian issue could be on a separate track. In sum, Halaiga said, the region needed space and room to address its own problems. He said that the upcoming Arab Summit meeting in Tunis would see an important initiative from Jordan and others that he hoped the United States would be able to support. Halaiga also noted that King Abdullah would be traveling to the UK, France and Ireland in the next week to seek support for this initiative.

111. (C) Halaiga said he was planning to visit Washington in late March or early April and would like to continue this discussion with Larson and other U.S. officials. Also, Abu Hammour asked for U.S. support in encouraging the IMF to locate a planned regional training center in Amman instead of in Abu Dhabi, the other main competitor for the center. (He made a similar request to Treasury U/S Taylor in a February 21 meeting.)

Comment

¶12. (C) Larson's visit was very useful in solidifying an already strong dialogue with Jordanian economic policymakers. His reinforcement of Jordan's fiscal and economic reforms, which Larson also praised in public fora with the AmCham and in a roundtable with young professionals (septel), was especially helpful as the new government considers how to move on economic issues. Post will keep the pressure on the Jordanians for an early transfer of the remaining Iraqi assets. At the same time, however, it is critical that an Iraqi team come to Amman in the very near future -- if only for a first discussion and assessment of what would be required to resolve the claims issues.

¶13. (C) Under Secretary Larson or his staff did not clear this message.
GNEHM